Sub

QSP LTD LTÉE

ANNUAL REPORT · YEAR ENDED DECEMBER 31, 1969

Report to the Shareholders of QSP Ltd.-Ltée.

We take pleasure in presenting to you the first annual report of QSP Ltd. - Ltée. for the year ended December 31, 1969.

QSP Ltd. — Ltée., our new Corporation, embodies MacKinnon Structural Steel Division, Quebec Steel Products Ltd., Lasalle Steel Inc. and its subsidiary company, St. Lawrence Iron & Metal Inc. These latter companies are now subsidiaries of QSP Ltd. — Ltée. and we shall outline their respective functions later in this report.

The deliberations and actions which led to the formation of QSP Ltd. - Ltée. rested on the belief that no modern enterprise can flourish unless it comprehends those influences and patterns which are radically changing the environment in which corporate business can function. An aggressive company must mould its structure and its aims to meet the challenges and exploit the opportunities of the future.

We have hired key executives of outstanding calibre to augment an already strong team and, in this context, we point with some pride to the significant changes in corporate character and direction which have occurred in recent months. We have evolved from a company of modest size and ambition into an integrated complex of great potential, geared to growing national and international markets in steel warehousing, reinforcing steel fabrication, structural steel fabrication and the ever-increasing field of scrap metal processing.

Financial Review: Sales for the calendar year 1969 were $24,117,472. and after-tax earnings, based on 445,500 shares outstanding, were $1.67. This has been achieved in a most difficult year and we are proud to present this improvement over the previous year's operation.

Outlook: The strong demand for our products, in both domestic and foreign markets, continues unabated. Projections for 1970 predict an increase in sales of approximately 25% and greater profits may be expected from a full year's operation of our newly opened processing plants in Montreal and Quebec City. These plants were started in mid-summer 1969 and completed in late December, so that their impact on earnings has not as yet been felt. Management therefore predicts with confidence that after-tax earnings for the current year will range between $2.65 and $2.90 per share on 479,500 shares outstanding — exclusive of any possible acquisitions now being investigated. Cash flow is expected to generate $2 million in this period.

In contemplating the future, be assured that your management will continue to keep abreast of trends in business administration as well as technological advances in all areas of corporate interest. Considerable satisfaction is derived from the accomplishments of the past year and, with the human and technological resources which now constitute our company, we look toward a most promising future.

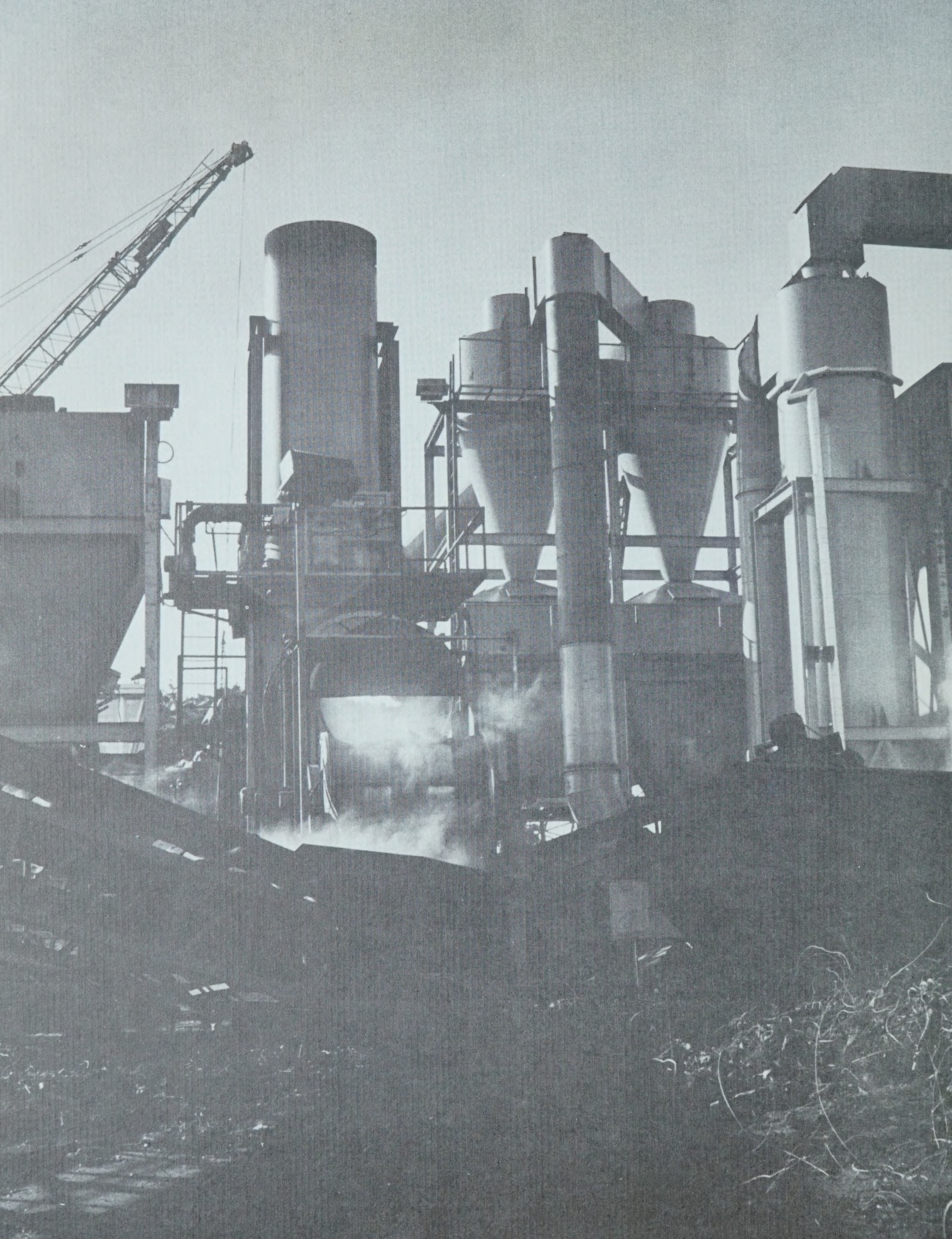
We would now ask that you join us in a review of the activities of your company over the last year and may we also refer you to the constituent parts of QSP Ltd. - Ltée., the divisions, which are individually profiled within this report.

Respectfully submitted,

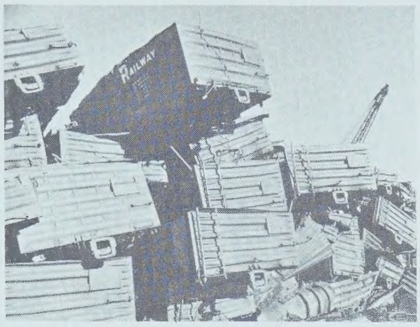
Chairman of the Board.

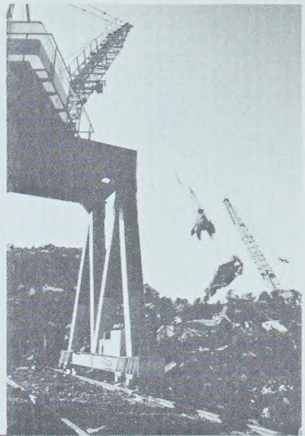
President.

Montreal, Que.
March 23, 1970



St. Lawrence Iron & Metal Inc./ Lasalle Steel Inc.





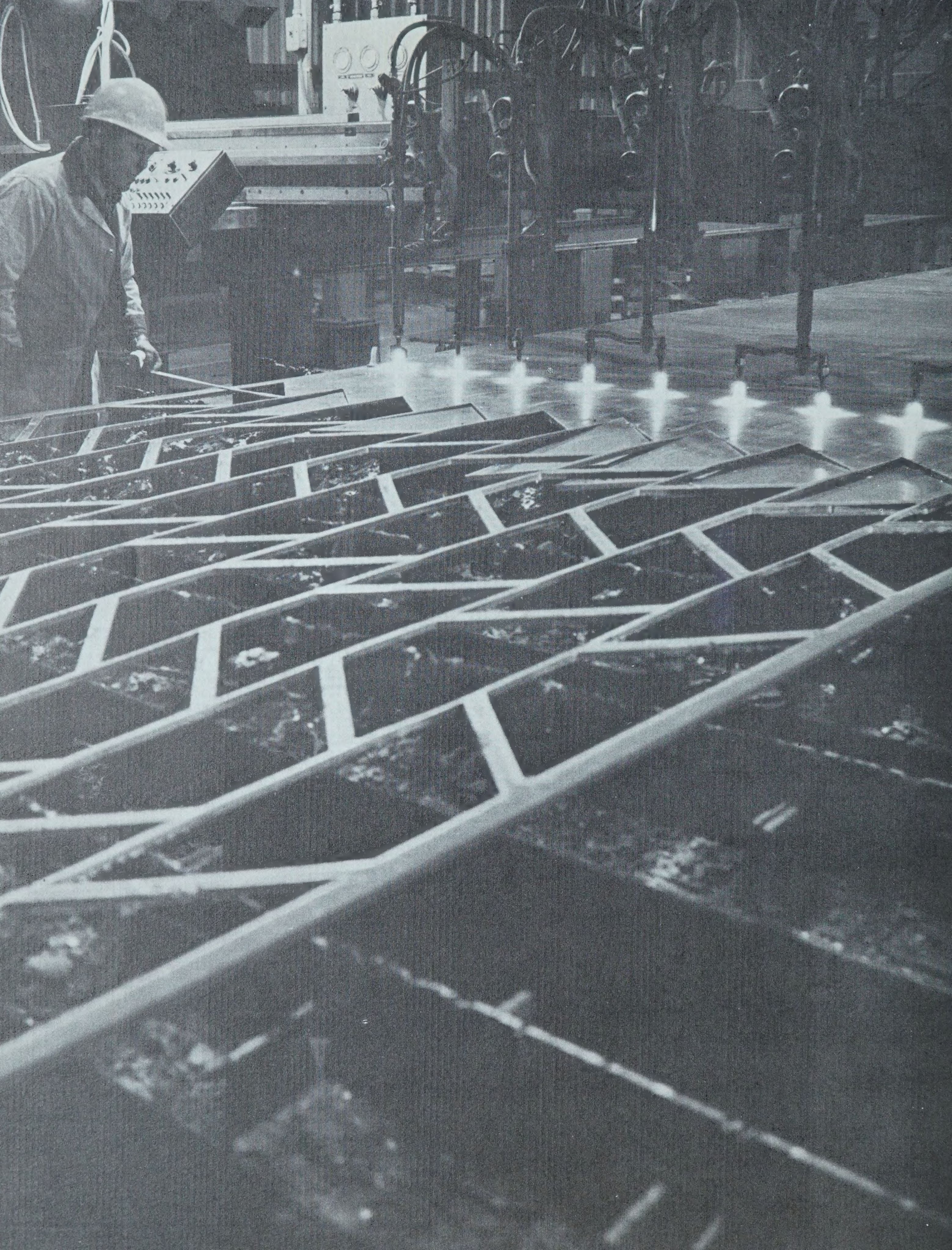
Located on the south shore of the St. Lawrence River, immediately across from Montreal, the St. Lawrence Iron and Metal Division is a new installation operating the most modern scrap metal processing plant in Eastern Canada. Covering an area of some fourteen acres, the plant is an amazing example of automated ingenuity for the processing of scrap steel. A few examples of this 'man-of-the-moon-age' equipment are — the auto body fragmentizer, capable of shredding a complete car each minute into clean, compact pieces of premium scrap steel, two of the largest hydraulic scrap steel shears in the country and specially-designed gantry cranes of extreme versatility. Similarly, there are almost two miles of railroad trackage with a 60-ton locomotive, plus all the ancillary equipment necessary to the efficient and profitable processing of the most desirable grades of ferrous and non-ferrous scrap.

The processing of automobiles, railway rolling stock, etc., has assumed the stature and importance of a basic industry, because of its increasing dimension as a renewable resource for the growing appetite of world industry for metal.

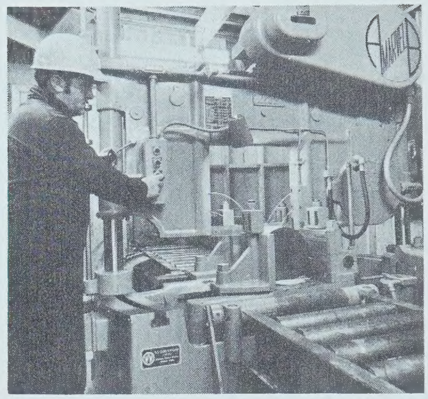
St. Lawrence Iron & Metal Inc. has recently opened its *Canal Bank Division* which operates a scrap section depot in the West End of Greater Montreal for the convenience of St. Lawrence's customers in that area. This operation, with its modern equipment, is a further step in our program to provide efficient service in the scrap metal industry.

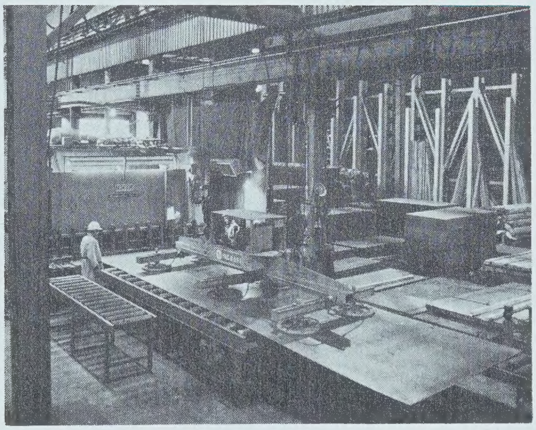
The processing of scrap today is big business in every sense of the word, wherein a limited number of major corporations, staffed and equipped to meet the insatiable demands of the world's steel mills, have emerged as a new elite in the latest chapter of the "Romance of Steel."

◀ *St. Lawrence Iron & Metal Inc., new fragmentizer.*



Quebec Steel Products Ltd., Montreal/Quebec City





The Steel Service Division in Montreal is a modern facility with 40,000 square feet of warehousing, plus 120,000 square feet of outdoor crane-serviced storage. The latest and most sophisticated equipment of its type, such as: a new 1¼″ plate shear, a twelve-torch, co-ordinate drive, electronic plate-cutting machine, a 24-inch semi-automatic hand saw, a stacker crane, a vacu-lift remote-control crane and overhead cranes, provide fast and efficient service to a growing list of customers.

In Quebec City, the facility is just as modern but on a more modest scale. Designed to serve the needs of the fast-developing areas in the Quebec City industrial community, it shares the same policy of its Montreal counterpart — an emphasis on fast, efficient attention to all customer requirements.

◀ *Steel Service Division's twelve-torch, co-ordinate drive, electronic plate cutting machine.*

Harris Steel Division

Established in 1958 to serve the construction industry in Quebec and Eastern Canada with fabricated reinforcing steel, it is now the largest independent operation in its field. Operating from its modern, well-equipped facility at Lachine, the Harris Steel Division is an important element of the inevitable growth pattern of QSP Ltd. - Lteé., and its role in the expanding economy of Canada's future.

Consistent with the company's determined emphasis to extract the maximum efficiency from all operating divisions, the operations of the Harris Steel Division demonstrate consistently high levels of performance. With anticipated increased demand for its production, the facilities of this division are flexible enough to accommodate rapid market demands and delivery targets.

◂ *Westmount Square. Another Harris project. 6,000 tons of fabricated reinforcing steel. Above: Alexis Nihon Plaza, 11,000 tons, Edifice Banque Canadienne Nationale, 4,000 tons. Le Cartier, 2,000 tons.*

QSP Ltd. – QSP Ltée.

(Formerly MacKinnon Structural Steel Company Limited)
and its subsidiary companies

Consolidated Balance Sheet as at December 31, 1969

ASSETS

CURRENT		
Cash	$ 16,435	
Marketable securities, at cost (quoted market value $40,173)	44,452	
Accounts receivable, less allowance for doubtful accounts	3,738,905	
Inventory, at the lower of estimated cost or net realizable value	3,750,235	
Cash surrender value of life insurance	12,075	
Prepaid expenses	43,924	
		$ 7,606,026
OTHER		
8% Mortgage receivable due August 1, 1971, payable by monthly blended instalments of $175.98, principal & interest, less current maturity	21,316	
Deposit on purchase price of shares (note 1)	40,000	
Loan receivable (note 1)	43,958	
		105,274
FIXED (Notes 2 & 3)		
Land	609,601	
Buildings & building improvements	1,369,129	
Machinery, equipment & cranes	3,945,978	
Vehicles	338,998	
Roadway, siding & fence	143,382	
	6,407,088	
Accumulated depreciation	2,475,289	
	3,931,799	
Alterations to leased premises, unamortized balance	12,300	
Deposits on land & building	3,770	
		3,947,869
UNAMORTIZED MORTGAGE LOAN DISCOUNT		15,949
EXCESS OF COST OF INVESTMENTS IN SUBSIDIARY COMPANIES OVER THEIR NET BOOK VALUE AT TIME OF ACQUISITION		3,048,260
		$14,723,378

Approved on behalf of the Board:

Saul Josephson, *Director*

Gerald J. Josephson, *Director*

LIABILITIES

CURRENT		
Bank advances (Note 4)	$1,932,007	
Accounts payable	4,297,472	
Income taxes payable	94,000	
Term debt, current maturity	237,431	
		$ 6,560.910
TERM DEBT (Note 5)		531,180

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized:		
1,690 5% cumulative redeemable sinking fund first preference shares of $100 each		
25,000 second preference shares of $100 each (convertible at any time into common shares on basis of 1 second preference share into 4 common shares)		
1,000,000 common shares of no par value		
Issued:		
109 first preference shares	10,900	
445,500 common shares (including 66,000 shares to be issued in accordance with details outlined in Note 1)	6,303,500	
	6,314,400	
PREFERENCE STOCK SINKING FUND RESERVE	10,900	
RETAINED EARNINGS	1,305,988	
		7,631,288
		$14,723,378

See accompanying notes to consolidated financial statements

QSP Ltd.-QSP Ltée.

(Formerly MacKinnon Structural Steel Company Limited)
and its subsidiary companies

Consolidated Statement of Earnings

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1969 (Note 6)

Gross revenue from operations		$24,117,472
Profit from operations, before the undernoted items		1,344,170
Income from marketable securities	$ 4,203	
Gain on sale of marketable securities	1,270	
Net gain on sale of fixed assets	7,017	
		12,490
		1,356,660
Depreciation (Note 2)	376,673	
Interest on term debt	52,085	
Remuneration to directors (as directors and as officers)	156,813	
		585,571
EARNINGS BEFORE INCOME TAXES		771,089
Provision for income taxes	295,000	
Reduction on application of prior years' losses	267,000	
		28,000
NET EARNINGS		$ 743,089
EARNINGS PER COMMON SHARE		$1.67

See accompanying notes to consolidated financial statements

Consolidated Statement of Retained Earnings

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1969 (Note 6)

Balance — JANUARY 1, 1969		$ 553,653
Net earnings for the period		743,089
		1,296,742
Expenses related to the issuance of additional capital stock	$ 8,317	
Dividends paid on preference shares	970	
Write off of investment in shares of a subsidiary company	2,267	
		11,554
		1,285,188
Transfer from preference stock sinking fund reserve		20,800
BALANCE — DECEMBER 31, 1969		$ 1,305,988

See accompanying notes to consolidated financial statements

QSP Ltd.–QSP Ltée.

(Formerly MacKinnon Structural Steel Company Limited)
and its subsidiary companies

Consolidated Statement of Source and Use of Funds

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1969 (Note 6)

SOURCE OF FUNDS			
Operations		$ 743,089	
Charges not requiring an outlay of funds:			
Depreciation		376,673	
Amortization of mortgage loan discount		2,475	
			$1,122,237
Proceeds from issue of common stock, net of related expenses		6,155,683	
Net increase of term debt		48,435	
Reduction of mortgage receivable		389	
			6,204,507
			7,326,744
USE OF FUNDS			
Additions to fixed assets, net	$1,862,727		
Deposits on land & building	3,770		
		1,866,497	
Deposit on purchase of shares		40,000	
Advances to company acquired subsequent to December 31, 1969		43,958	
Dividends paid on preference shares		970	
Redemption of preference shares		20,800	
Acquisition of shares of subsidiaries	5,228,600		
Working capital acquired	668,065		
		4,560,535	
			6,532,760
INCREASE IN WORKING CAPITAL			793,984
WORKING CAPITAL — JANUARY 1, 1969			251,132
WORKING CAPITAL — DECEMBER 31, 1969			$1,045,116

See accompanying notes to consolidated financial statements

Auditors' Report

Montreal, March 17, 1970

To the Shareholders of
QSP Ltd. — QSP Ltée.

We have examined the consolidated balance sheet of QSP Ltd. — QSP Ltée. and its subsidiary companies as at December 31, 1969. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

We have also examined the consolidated statements of earnings, retained earnings and source and use of funds for the twelve months ended December 31, 1969, prepared on the basis outlined in Note 6 to the consolidated financial statements.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the consolidated results of their operations and the source and use of their funds for the twelve months ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change, with which we concur, in the method of computing depreciation as set out in Note 2 to the consolidated financial statements.

RICHTER, USHER & VINEBERG
CHARTERED ACCOUNTANTS

Notes to Consolidated Financial Statements

NOTE 1 — ACQUISITIONS AND PRINCIPLES OF CONSOLIDATION

(a) The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of all subsidiary companies.

The earnings of subsidiary companies are included in the consolidated financial statements as described in Note 6.

The cost of shares purchased exceeded the book values of such shares at the dates of acquisition by $3,048,260. This amount has been included under the caption "Excess of Cost of Investments in Subsidiary Companies Over Their Net Book Value at Time of Acquisition", and is not being amortized.

During the year ended December 31, 1969 the company acquired control of Quebec Steel Products Ltd. — Produits D'Acier de Quebec Ltée., Jesan Investment Corp., LaSalle Steel Inc. and St. Lawrence Iron & Metal Incorporated.

On consolidation, all significant inter-company transactions are eliminated.

(b) In connection with the acquisition in 1969 of LaSalle Steel Inc. and its wholly-owned subsidiary, St. Lawrence Iron & Metal Incorporated, the company has undertaken to issue additional shares of common stock to be valued at $16-¾ per share based upon increased earnings of LaSalle Steel Inc. and its wholly-owned subsidiary, St. Lawrence Iron & Metal Incorporated, subsequent to acquisition date. Through December 31, 1969, 66,000 additional shares are to be issued and have been considered as outstanding during all of 1969 for purposes of computing the earnings per share. An additional 34,000 shares may be issued contingent upon increased earnings in 1970 and 1971.

(c) The company made a deposit of $40,000 with an offer to purchase all of the issued and outstanding shares of McGill Auto Park Inc.; the offer was accepted by the vendors subsequent to December 31, 1969 and the shares were acquired for a total consideration of $45,700. In anticipation of acquiring the aforesaid shares, advances of $43,958 were made.

NOTE 2 — CHANGE IN ACCOUNTING PRINCIPLE

In 1969 the company changed its policy with respect to providing depreciation on machinery, equipment, cranes and buildings as follows:

(a) Major fixed asset additions are depreciated commencing with the month such assets are put into use; the company's previous policy had been to provide depreciation for a full year on all fixed asset additions irrespective of the dates of acquisition or dates of use. The principal additions consist of buildings, new plant and equipment.

(b) As to machinery, equipment and cranes, rates have been changed principally from the declining balance method at 20% to the straight line method at 10%.

If the methods used in previous years had been followed, the net earnings for the year would have been reduced by $253,151 or $0.57 per share.

NOTE 3 — FIXED ASSETS AND DEPRECIATION

(a) Fixed assets are carried at cost with the exception of land which is carried at the value as appraised by Westmount Realties Co. on March 25, 1969; the surplus arising from said appraisal amounts to $362,808. Depreciation is provided at rates which reflect the estimated useful lives of the assets.

(b) Deposits on land and building consist of the following:

  (a) A deposit of $1,000 with an offer to purchase land and building for a total price of $40,000; this offer was accepted by the vendor subsequent to December 31, 1969.

  (b) A deposit of $2,770 with an offer to purchase land for a total price of $20,574; this offer was accepted by the vendor prior to December 31, 1969 but the purchase has been postponed pending approval of the Government of Quebec.

NOTE 4 — BANK ADVANCES

Bank advances are secured by a registered general assignment of book debts and a floating charge on all assets of the company.

NOTE 5 — TERM DEBT

Term debt comprises the following:

7½% loan, payable by twelve annual instalments, varying from $10,000 in 1970 to $20,000 in 1981 (secured by mortgage on land and buildings).	$173,000
Trade debt maturing January 15, 1971, payable by semi-annual instalments of $25,833.	77,500
Balance of purchase price of fixed assets, maturing July 23, 1970, payable by monthly instalments of $2,340 (secured by fixed assets).	14,319
7½% mortgage, maturing July 31, 1973, payable by annual instalments of $15,000 and a final payment of $20,000 (secured by land).	65,000
First mortgage, maturing October 22, 1970, payable by monthly instalments of $4,000 (secured by fixed assets).	40,000
7½% mortgage maturing February 1, 1973, payable by annual instalments of $7,500	30,000
Loan payable, due subsequent to 1970	58,000
Loans payable — shareholders, due subsequent to 1970.	34,717
Accounts payable, secured by liens on machinery.	276,075
	768,611
Current maturity	237,431
	$531,180

NOTE 6 — STATEMENTS OF EARNINGS, RETAINED EARNINGS AND SOURCE AND USE OF FUNDS

(a) The company has changed its fiscal year from July 31 to December 31. Consolidated statements of earnings, retained earnings and source and use of funds for the five months ended December 31, 1969 are not available because financial statements of the subsidiary companies were not prepared as at July 31, 1969.

In order to compute the earnings of the company and its subsidiaries for the twelve month period ended December 31, 1969, reference was made to both interim and year end statements for various periods ending in 1968 and 1969 of those companies whose fiscal year ends were other than December 31.

Although the company acquired control of Quebec Steel Products Ltd. — Produits D'Acier de Québec Ltée, Jesan Investment Corp., LaSalle Steel Inc. and St. Lawrence Iron & Metal Incorporated on March 26, 1969, the earnings of these companies have been included from January 1, 1969 as the acquisition of these companies was based on the December 31, 1968 financial statements.

(b) Retained earnings includes an amount of $14,400 set aside in the accounts as required by law, equal to the par value of preference shares redeemed during the year.

NOTE 7 — CONTINGENT LIABILITIES

The company is contingently liable as follows:

(a) A judgement against the company in the amount of $12,233, including costs and interest; the company has lodged an appeal against this judgement, which appeal has not as yet been adjudicated.

(b) A demand for $7,143 with respect to a claim for certain fees; the company intends to contest this action.

No provision has been made in the accounts for the aforesaid.

NOTE 8 — COMPARATIVE FIGURES

No comparative figures have been provided as such figures are not available.

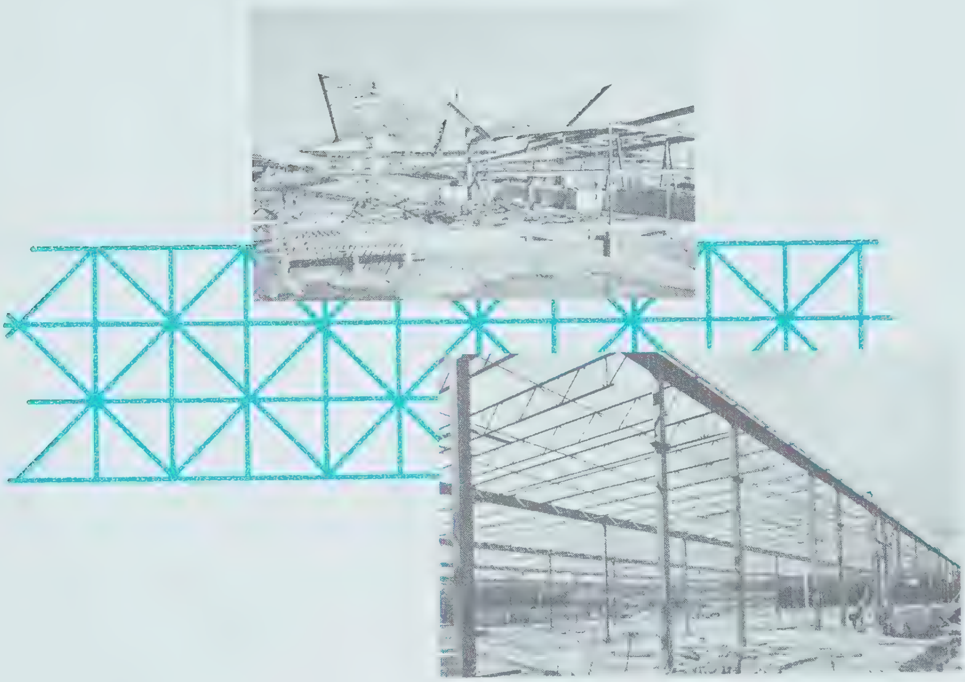
Gulf Iron & Metal Division

From its beginning in 1937, Gulf Iron and Metal has grown significantly from a modest operation processing scrap steel and metal. This record of sustained growth culminated in a recent move to the division's present six-acre site on the dock in Quebec City. The new facility, with the most modern equipment for loading ocean-going bulk carriers, enables Gulf production to be shipped direct from the plant to any port in the world.

Possessing all the modern and varied equipment necessary for efficient and profitable operation — large hydraulic guillotine scrap shear, gantry crane, non-ferrous metal processing warehouse and myriad other elements of modern scrap processing — the Gulf Iron and Metal Division continues to expand its sales and its scope beyond the normal growth increase of the area it serves.


MacKINNON STRUCTURAL
SHERBROOKE QUE

MacKinnon Structural Steel Division



Incorporated originally in 1919, as the MacKinnon Steel Company Limited, the company subsequently underwent corporate changes in capital structure and name until it emerged as the MacKinnon Structural Steel Company Limited in 1943, the designation it retained until becoming an operating division of QSP Ltd. - Ltée., as outlined in the opening address to this report.

MacKinnon Structural Steel Division is a well established structural steel fabricating and erecting facility, located on a six-acre site in Sherbrooke, Quebec, and having its principal markets in the north-eastern United States and eastern Canada. Under the corporate umbrella of QSP Ltd.-Ltée., the MacKinnon Division becomes an important unit in the integrated operations of a modern steel complex with greatly expanded business horizons and growth potential.

QSP Ltd.-QSP Ltée.

DIRECTORS

Saul Josephson
Gerald J. Josephson
Myer Deitcher
Alvin J. Walker
L. Lamont Gordon
Robert H. Alrod
Cyril R. Snell
Phillip DeZwirek

EXECUTIVE OFFICERS

Saul Josephson, *Chairman of the Board*
Gerald J. Josephson, *President*
Robert H. Alrod, *Executive Vice-President*
Cyril R. Snell, *Vice-President*
George S. Grostern, C.A., *Secretary-Treasurer*

REGISTRARS AND TRANSFER AGENTS

Montreal Trust Company

STOCK EXCHANGE

Montreal Stock Exchange

AUDITORS

Richter, Usher & Vineberg

GENERAL COUNSEL

Mendelson, Selick, Gross and Pinsky

HEAD OFFICE

3285 Cavendish Blvd., Suite 300
Montreal 261, Quebec

488-2341

ANNUAL MEETING

April 30, 3:00 P.M.,
Montreal Board of Trade Bldg.,
1080 Beaver Hall Hill,
5th Floor, Salon 2

QSP LTD LTÉE

Quebec Steel Products Ltd.

Steel Service Division Montreal
Located in Lachine; modern warehouse facilities housing latest in steel handling and fabricating equipment including electronic tracing torches.

Steel Service Division Quebec City
Opened 1966; up-to-date facility efficiently handling requirements of the North-east section of Province.

Harris Steel Division Montreal
Located in Lachine; one of the largest independent re-bar fabricators servicing the construction industry.

Gulf Iron & Metal Division Quebec City
New scrap processing facility with modern equipment plus long and profitable history makes Gulf Iron a major factor in the Province's scrap steel industry.

Jesan Investment Corp.
Real Estate

Lasalle Steel Inc.
Operation combined with that of St. Lawrence Iron & Metal Incorporated.

St. Lawrence Iron & Metal Incorporated
New 14 acre facility housing most up-to-date processing equipment including a fragmentizer ranks this subsidiary as the most efficient scrap steel facility in Canada.

MacKinnon Structural Steel Division
Structural Steel plant located in Sherbrooke engaged in the fabrication and erection of buildings and bridges.

SALES	1969 – $24,117,472.	1970 – Projected in excess of $29,000,000.*

**Does not include possibility of acquisitions.*

The global operations of QSP Ltd. - Ltee., are graphically depicted on the above map. With continuing aggressive sales efforts, practically every country in the world is a potential customer.